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No. 06-902

In the Supreme Court of the United States

MIGUEL FIGUEROA, PETITIONER

v.

UNITED STATES OF AMERICA

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES IN OPPOSITION

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QUESTIONS PRESENTED

The Patent Act, 35 U.S.C. 101 *et seq.*, requires patent applicants and patent holders to pay filing, issuance, and maintenance fees. The questions presented are:

1. Whether the Patent Clause, U.S. Const. Art. I, § 8, Cl. 8, obligates Congress to appropriate all of the funds received from patent fees to the Patent and Trademark Office.

2. Whether patent fees are a direct tax that must be apportioned among the several States under the Direct Tax Clause, U.S. Const. Art. I, § 9, Cl. 4 .

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OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-29a) is reported at 466 F.3d 1023. The opinions of the Court of Federal Claims (Pet. App. 30a-66a, 67a-107a) are reported at 66 Fed. Cl. 139 and 57 Fed. Cl. 488.

JURISDICTION

The judgment of the court of appeals was entered on October 11, 2006. The petition for a writ of certiorari was filed on December 27, 2006. The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

STATEMENT

Petitioner Miguel Figueroa, a patent holder, filed this suit under the Tucker Act, 28 U.S.C. 1491, seeking to recover fees that he paid to the United States Patent and Trademark Office (PTO).

1. The Patent Act requires applicants for patents to pay filing and issuance fees to cover the cost of processing patent applications. See 35 U.S.C. 41, 42(b), 111(a)(3). If a patent is issued, the patent holder must pay maintenance fees at specified intervals. See 35 U.S.C. 41(b). If an individual fails to pay any of the mandated fees, the application or patent is deemed abandoned. See 35 U.S.C. 41(b), 111(a)(4), 151.

Patent fees are collected by the PTO and are credited to the "Patent and Trademark Office Appropriation Account" in the United States Treasury. 35 U.S.C. 42(b). Each fiscal year, Congress appropriates funds from that account to the PTO. See 35 U.S.C. 42(c); Pet. App. 4a. Congress does not, however, use patent fees to cover all patent-related government expenses. For example, "PTO employee benefits, including pensions, health insurance, and life insurance" are "funded from the general treasury." *Id.* at 7a.

From Fiscal Year 1991 to 2004, the patent fees collected annually by the PTO exceeded the agency's operational expenses. See Pet. App. 5a, 41a. During that period, Congress appropriated some of the surplus funds in the Patent and Trademark Office Appropriation Account to support other government programs and initiatives, such as deficit reduction. See *id.* at 5a.

2. In February 2001, petitioner applied for a patent on an invention and paid the filing fee. Pet. App. 7a. Petitioner's patent application was granted in November 2002. *Id.* at 8a. In August 2001, while the application was pending, petitioner filed suit in the Court of Federal Claims to recover the fees paid and to enjoin the PTO from collecting future fees. See *id.* at 7a. Petitioner asserted that the exaction of the fees was unconstitutional because the Patent Clause (U.S. Const. Art. I, § 8,

Cl. 8) requires Congress to appropriate all of the proceeds of patent fees to the PTO and prohibits Congress from using any of the funds for other government programs. See Pet. App. 1a-2a, 30a-31a. Petitioner further claimed that, to the extent patent fee revenue is used for non-PTO programs, the fees constitute an unapportioned direct tax in violation of the Direct Tax Clause. See *id.* at 2a, 30a-31a.[1]

3. The Court of Federal Claims rejected petitioner's challenge to the patent fee system. Pet. App. 30a-66a, 67a-107a. The court dismissed petitioner's direct tax claim, reasoning that patent fees are not a tax, but are instead a reasonable condition on the privilege of owning a patent. *Id.* at 98a-101a. The court also rejected petitioner's Patent Clause claim. *Id.* at 53a-65a. The court determined that petitioner failed to satisfy the "heavy burden" of proving that congressional appropriations of patent fees lacked any rational basis. *Id.* at 63a-64a. The court concluded that "Congress' determination of federal spending priorities and how the patent system fits into national economic development goals is an eminently rational exercise of its power." *Id.* at 65a.[2]

4. The court of appeals affirmed. Pet. App. 1a-23a. The court first considered whether petitioner has standing to challenge congressional appropriations of patent fees. *Id.* at 10a. The court concluded that petitioner suffered a cognizable "injury-in-fact from actually pay-

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[1] See U.S. Const. Art. I, § 9, Cl. 4 ("No Capitation, or other direct, Tax shall be laid, unless in Proportion to the Census or Enumeration herein before directed to be taken.").

[2] In the Court of Federal Claims, petitioner also alleged that patent fees constitute an unlawful taking under the Fifth Amendment. The court rejected that claim, Pet. App. 101a-106a, petitioner did not pursue it on appeal, *id.* at 9a n.7, and he does not press it in this Court.

ing patent fees" that was both traceable to the challenged conduct and redressable by a judicial award of a refund, and accordingly has "standing to challenge the legality of the fees that he paid." *Ibid.* Petitioner does not, however, have "standing to challenge the diversion of the fees once paid, except to the extent that the diversions [were] alleged to render the exaction of fees unconstitutional." *Ibid.*

The court of appeals rejected petitioner's claims on the merits. The court "assume[d], without deciding" that the preamble to the Patent Clause, which states that Congress may enact patent laws "[t]o promote the Progress of Science and useful Arts," serves not only as a grant of power but also as a limitation on congressional authority. Pet. App. 13a. The court further assumed that "this limitation is judicially enforceable." *Ibid.* The court then upheld the patent fee system, concluding that there was "a rational relationship between the present level of patent fees and Congress's legitimate objectives under the Patent Clause." *Id.* at 15a-16a.

The court determined that patent fees "bear a rational relationship to the cost of running the patent system." Pet. App. 17a. The court recognized that Congress did not appropriate every dollar of patent fee revenue to the PTO. See *ibid.* But the costs of the "overall patent system" are "not limited to the direct costs of operating the PTO." *Id.* at 16a-17a. The court concluded that Congress also supported the patent system by separately appropriating funds for the PTO's "substantial" "employee benefits costs," executive oversight of the PTO, and the "federal court system, which provides a forum for resolving patent disputes." *Id.* at 17a. The court observed that petitioner "ha[d] not even attempted to quantify these other costs of operating the

patent system or made any effort to show that they are disproportionate to the revenue raised from patent fees that is not directly appropriated to the PTO." *Ibid.*

The court further concluded that the patent fee system was rational even if the fees currently collected "exceeded these secondary costs of operating the patent system within any given year." Pet. App. 18a. Congress could, for example, "rationally decide to set fees" at a level that would "deter the filing and prosecution of certain types of patent applications." *Id.* at 18a-19a. Congress could also "rationally conclude that patent fees should be set in amounts designed to * * * offset future costs" of administering the PTO and the patent system. *Id.* at 18a.

The court noted that petitioner's principal complaint was that "the actual dollars collected [by the PTO] were not used to fund the patent system," because Congress had appropriated some of those dollars to non-PTO programs. Pet. App. 17a. But, the court concluded, "[t]he Patent Clause imposes no dollar-for-dollar traceability requirement." *Ibid.*

The court of appeals also rejected petitioner's contention that patent fees "amount[] to an unconstitutional Direct Tax * * * insofar as those fees [are] used to fund non-PTO programs." Pet. App. 20a-21a. The court observed that "[i]t is doubtful that the patent fees, paid for the privilege of securing a patent grant, should be viewed as taxes rather than payments for a privilege." *Id.* at 21a. However, "even if patent fees constitute a tax on intellectual property, they are an excise tax rather than a direct tax and need not be apportioned." *Ibid.*

Judge Newman, concurring in the judgment (Pet. App. 24a-29a), likewise concluded that petitioner "ha[d] not met the extremely heavy burden of establishing"

that the patent fee system was unconstitutional. *Id.* at 24a. Judge Newman reasoned that "the evidence did not clearly establish that Congress was extracting more money from patentees than the government spends in administering the system." *Id.* at 25a.

ARGUMENT

The court of appeals' decision is correct and does not conflict with any decision of this Court or of any other court of appeals. Further review is not warranted.

1. a. The court of appeals correctly held that the patent fee system does not violate the Patent Clause. The Patent Clause provides only that "Congress shall have Power * * * [t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries[.]" U.S. Const. Art. I, § 8, Cl. 8. As this Court has recognized, "[t]he clause is both a grant of power and a limitation." *Graham* v. *John Deere Co.*, 383 U.S. 1, 5 (1966); see *id.* at 5-6. But the Clause imposes no textual limit on the collection or expenditure of patent fees, and instead leaves Congress free to "implement the stated purpose of the Framers by selecting the policy which in its judgment best effectuates the constitutional aim." *Id.* at 6.

Moreover, even assuming that the Patent Clause does constrain Congress' authority over the use of patent fees, the court of appeals correctly rejected petitioner's argument that the patent fee system is not rationally related to the purpose of the Clause. See Pet. App. 13a-20a. This Court has recognized that rational-basis review applies to challenges under the Patent and Copyright Clause. See *Eldred* v. *Ashcroft*, 537 U.S. 186, 204-208 & n.10, 213, 217-218 (2003). To demonstrate

that Congress acted irrationally, petitioner faced a "heavy burden." *Hodel* v. *Indiana*, 452 U.S. 314, 331-332 (1981) (federal legislation "carries with it a presumption of rationality that can only be overcome by a clear showing of arbitrariness and irrationality"). Petitioner had to show that there was no "rational basis on which Congress *could* conclude that the level of fees served legitimate congressional objectives." Pet. App. 16a.

As the court of appeals recognized, there is "a rational relationship between the present level of patent fees and Congress's legitimate objectives under the Patent Clause." Pet. App. 15a-16a. The current patent fee structure is reasonably designed to fund the "overall patent system," which includes not only the PTO's annual operating expenses, but also its employee benefits program, executive oversight of the PTO, and the federal court system that adjudicates patent disputes. *Id.* at 16a-17a. Congress may also reasonably charge patent fees to create reserve funds for future patent-related expenses. *Id.* at 18a. Petitioner never "made any effort to show" that, once these costs were taken into account, current fee levels are not rationally related to the costs of administering the patent system. *Id.* at 17a.

The court of appeals properly rejected petitioner's contention that the Patent Clause requires Congress to use "the actual dollars" collected by the PTO "to fund the patent system." Pet. App. 17a. As the court held, "[t]he Patent Clause imposes no dollar-for-dollar traceability requirement." *Ibid.*; see *Kimel* v. *Florida Bd. of Regents*, 528 U.S. 62, 83 (2000) (rational-basis scrutiny does not require "razorlike precision"). In addition, "Congress could rationally seek to discourage applications for patents that would later likely be found in-

valid," Pet. App. 19a, or "from inventors who seek the patent only as a means of inhibiting innovation by competitors," *id.* at 20a. As this Court has recognized, "[i]nnovation, advancement, and things which add to the sum of useful knowledge are inherent requisites in a patent system which by constitutional command must 'promote the Progress of . . . useful Arts.'" *Graham*, 383 U.S. at 6.

b. Petitioner does not contest the court of appeals' conclusion that patent fees "bear a rational relationship to the cost of running the patent system." Pet. App. 17a. Instead, he asserts (Pet. 4, 6) that this was not the principal question before the court. Petitioner suggests (Pet. 4) that the court should have addressed his concern that Congress has inadequately funded the PTO, whether or not those spending decisions affected the fees that he paid. But, as the court of appeals concluded, petitioner has standing to challenge those congressional appropriations only to the extent that they "render[ed] the exaction of [patent] fees unconstitutional." Pet. App. 10a; see, *e.g.*, *DaimlerChrysler Corp.* v. *Cuno*, 126 S. Ct. 1854, 1862-1865 (2006) (taxpayers lack standing to mount a generalized challenge to the government's spending decisions); *United States* v. *Richardson*, 418 U.S. 166, 176-178 (1974) (same). Accordingly, once the court concluded that there was "a rational relationship between the present level of patent fees and Congress's legitimate objectives under the Patent Clause," Pet. App. 15a-16a, its inquiry was at end.

Moreover, even if petitioner had standing to launch a more general challenge to the expenditure of patent-fee revenue, this case would be a poor vehicle to consider those allegations. Petitioner claims (Pet. 5-6) that Congress' supposed underfunding of the PTO has

harmed the patent system by creating delays of ten years or more in the processing of patent applications, particularly in "fast-growing technological fields." But petitioner's patent was not in a "fast-growing technological field[]," and the PTO completed its consideration of his application in just 21 months. Pet. App. 7a-8a.[3]

Petitioner also asserts (Pet. 7) that the court should not have required him to prove that the patent fee system lacks any rational basis. But it is well established that "those attacking the rationality" of federal legislation "have the burden 'to negative every conceivable basis which might support it,'" regardless of "whether the conceived reason * * * actually motivated the legislature." *FCC* v. *Beach Commc'ns, Inc.*, 508 U.S. 307, 315 (1993) (quoting *Lehnhausen* v. *Lake Shore Auto Parts Co.*, 410 U.S. 356, 364 (1973)); *United States R.R. Ret. Bd.* v. *Fritz*, 449 U.S. 166, 179 (1980) ("Where, as here, there are plausible reasons for Congress' action, our inquiry is at an end.").

2. The court of appeals also properly rejected petitioner's claim that patent fees are an unconstitutional direct tax. Patent fees do not constitute a tax at all, but are instead a condition of obtaining and holding a federally conferred privilege, imposed by the government to defray the cost of administering and operating the patent system. See 35 U.S.C. 41, 42(b); *Bate Refrigerating Co.* v. *Sulzberger*, 157 U.S. 1, 43 (1895) (Congress has plenary authority "to prescribe the conditions" upon which individuals may obtain patents).

Furthermore, even assuming *arguendo* that patent fees could be deemed a tax, they would not be a direct

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[3] Petitioner patented a "hand-held flux and solder tool designed to form joints on copper pipes." Pet. App. 30a n.1.

tax, but an excise tax. "A tax imposed upon the exercise of some of the numerous rights of property is clearly distinguishable from a direct tax, which falls upon the owner merely because he is owner, regardless of his use or disposition of the property." *Fernandez* v. *Wiener*, 326 U.S. 340, 362 (1945). Excise taxes need not be apportioned among the several States. *Ibid.* Accordingly, as the court of appeals concluded (Pet. App. 22a), taxes on the acquisition or use of "specific categories of personal property," such as patents, constitute excise taxes that need not be apportioned. See, *e.g.*, *United States* v. *Wells Fargo Bank*, 485 U.S. 351, 355 (1988) ("The estate tax is a form of excise tax."); *Billings* v. *United States*, 232 U.S. 261, 279 (1914) (a tax on foreign built yachts was a valid excise tax); *Spreckels Sugar Refining Co.* v. *McClain*, 192 U.S. 397, 410-413 (1904) (a tax on the refining of sugar was a valid excise tax); *Hylton* v. *United States*, 3 U.S. (3 Dall.) 171, 172-175 (1796) (upholding a tax on carriages).

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

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